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R E P O R T
OF THE
T A R I F F C O M M I S S I O N
ON THE
FAIR RETENTION PRICES OF STEEL
PRODUCED BY
THE TATA IRON &
STEEL CO. LTD.

BOMBAY
1953

TARIFF COMMISSION

GOVERNMENT OF INDIA

REPORT

ON THE

**FAIR RETENTION PRICES OF STEEL
PRODUCED BY
THE TATA IRON &
STEEL CO. LTD.**

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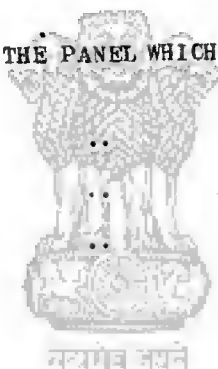
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PERSONNEL OF THE COMMISSION

Shri M.D. Bhat	<i>Chairman</i>
Dr. B.V. Narayanaswamy Naidu, M.A., B.Com., Ph. D., Bar-at-Law		...	<i>Member</i>
Shri B.N. Adarkar, M.A. (Cantab.)		...	<i>Member</i>
Shri B.N. Das Gupta, B.A., A.S.A.A. (London), F.C.A.		...	<i>Member</i>
Shri C. Ramasubban	..	...	<i>Member</i>
Dr. D.K. Malhotra, M.A., Ph.D.		...	<i>Secretary</i>

PERSONNEL OF THE PANEL WHICH HEARD THE CASE

Shri M.D. Bhat	..	...	<i>Chairman</i>
Shri B.N. Adarkar	..	...	<i>Member</i>
Shri B.N. Das Gupta	..	...	<i>Member</i>



GOVERNMENT OF INDIA
MINISTRY OF COMMERCE AND INDUSTRY

RESOLUTION
(Tariffs)

New Delhi, the 20th July, 1953.

No. SC(A)-2(96)/52.- In their letter No. SC(A)-2(94)/52, dated 29th November 1952, the Government of India had requested the Tariff Commission to examine the claim of the Tata Iron and Steel Company for an increase in their retention prices of steel from July 1951 onwards. The Commission was also requested to recommend prices for as long a period in the future as possible, that is to say, the period up to which a major change in the structure of production may take place as a result of the expansion of the works of the Company. The Commission has now submitted its Report. The main recommendations are:-

- (1) No revision of the existing retention prices for the period July 1951 to March 1952 is necessary.
- (2) The retention prices payable to the Company for the period April 1952 to March 1953 should, on the average, be Rs. 32.31 per ton more than the existing prices; and for the period April 1953 to March 1955 Rs. 66.98 more than the existing prices.
- (3) The payments made to the Company shall, as at present, continue to be subject to adjustments for the actual cost of spelter.
- (4) The retention prices for defectives, cuttings and non-standard products shall be Rs. 10 less per ton than those for standard products.

- (5) Any loss sustained by the Company or gain made by it on account of lower or higher receipts obtained by them from sales of sulphate of ammonia as compared to the amount for which credit has been taken in working out the works cost for 1953-55 should be adjusted with the Equalisation Fund.
- (6) A return of 10 per cent on the total gross block has been allowed for 1953-55, subject to the condition that the Company shall set aside the amount of extra return of 2 per cent less taxation for the specific purpose of modernisation and expansion in addition to the usual allocation to Reserve and that no part of it shall be utilised in or towards the payment of Managing Agency Commission or dividends or profit-sharing bonus or for distribution of profits in any other way.

2. The Government of India observe that on two important matters the Commission has recommended a departure from existing practice, namely, the rate of return on block and the treatment of the collieries owned and operated by the Company. The Commission has recommended that the rate of return on block should be raised from 6 to 10 per cent. The reasons given are that the Company should be enabled to set aside larger amount to reserves for financing their programme of modernisation and expansion and that greater incentives should be provided for new investment. But in order to enable the Company to implement their modernisation and expansion programme, Government have already agreed to the grant of a special loan on favourable terms. Government do not therefore propose to accept the recommendation for an increase in the present rate of return on block.

3. While recommending increase in retention prices for the period April 1952 to March 1953 and April 1953 - March 1955, the Commission has treated the collieries owned and operated by the Company as part of the steel works and

therefore allowed for purposes of costing the actual cost of raising coal, depreciation on collieries and the return on block represented by the collieries. In all previous enquiries, the collieries have been treated as if they formed a different concern and only the controlled prices of coal have been taken into account for computing the cost of steel. The Government of India do not consider that such a major change is justifiable without a further and more comprehensive enquiry into the subject, not only as it affects this Company, but also other steel producers. The Tariff Commission will be requested to undertake this enquiry. The position regarding 1952-53 is somewhat different. When retention prices for the Steel Corporation of Bengal were revised in 1952, the method of costing adopted by the Tariff Commission took into account certain contractual agreements of the Company with the Indian Iron and Steel Company with the Indian Iron and Steel Company. This resulted, in effect, in the inclusion of the collieries block of the Indian Iron and Steel Company for purposes of costing. The Government of India consider that for this period similar treatment should be accorded to the Tata Iron and Steel Company. The Government, therefore, accept the recommendation of the Tariff Commission on the treatment of collieries for the period 1952-53.

4. Government regret that they are unable to agree with the Commission that any loss that may be incurred by the Company on the sale of ammonium sulphate, which is a by-product in the manufacture of steel, should be recouped from the Equalisation Fund as they feel that this is not a proper charge on the Fund.

5. Subject to what has been stated in paragraphs 2,3, and 4 above, Government accept all the other recommendations of the Commission and have revised the retention prices of steel accordingly. For the period April 1952 to March 1953 the increase over the existing prices will, on the average, be about Rs. 32/- per ton; and for the period April 1953 to March 1955, the increase over existing retention prices

will, on the average, be about Rs. 47/- per ton. This may be modified, if necessary, after consideration of the special report on the treatment of collieries owned and operated by Iron and Steel producing companies.

S. Bhoothalingam,
Secretary to the Government of India.



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LIST OF THE REPORTS OF THE INDIAN TARIFF BOARD PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI

I. TARIFF INQUIRIES

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7. Fair retention prices of steel produced by the Tata Iron & Steel Co. and the Steel Corporation of Bengal (1951)	PTB 205
8. F. r. p. of Tinplate produced by the Tin- plate Co. of India Ltd. (1950)	PTB 190
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10. Revision of fair prices of superphosphate (July-December 1951)	PTB 194
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CLIFF COMMISSION

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REPORT ON THE FAIR RETENTION PRICES OF STEEL PRODUCED BY
THE TATA IRON & STEEL CO. LTD.

1. (a) The last inquiry into the fair retention prices of steel produced by the Tata Iron and Steel Co. Ltd., was made by the Indian Tariff Board in 1951 and a Report was submitted to Government on 30th May, 1951. The Board recommended that to enable the Company to carry out their production plans without frequent interruptions, their retention prices should be fixed for a period of three years, viz. from 1951-52 to 1953-54, provided that if significant increases took place in future in the prices of raw materials and stores, freight rates and/or compulsory charges under any labour welfare schemes initiated by the State, Government should examine the position and, if necessary, revise the retention prices. In estimating the works cost of the Company for the period 1951-52 to 1953-54, the Company's production was taken at 780,000 tons. In determining overheads for the period of three years, the same principles as had been adopted by the Tariff Board in 1949 were more or less followed except in regard to depreciation. A net amount of Rs. 300 lakhs for depreciation, which was about Rs. 100 lakhs above the amount allowed under the Income Tax Act, was recommended for the Company in order to enable them to carry out all replacements and improvements which were considered to be essential for maintaining the Company's plant facilities and for stabilising production at about 780,000 tons a year. The Board further recommended that an amount of Rs. 300 lakhs should be set apart by the Company for depreciation and the extra amount of depreciation should not be treated as part of profits for the purpose of determining profit-sharing bonus.

The Board examined the Company's suggestion that the rate of return on the block should be increased from 8 per cent. to 10 per cent. but did not think it necessary to allow a higher rate of return than 8 per cent on the gross block. The Board, however, allowed an extra amount of Rs. 23 lakhs to enable the Company to meet their commitments in respect of increased profit-sharing bonus to labour. Among the other recommendations of the Board were those relating to payment of compensation to the Company from, and refund by them to the Equalisation Fund for extra expenditure on account of any increase or fall in the price of spelter above or below Rs. 3,500 per ton and payment for defectives and cuttings to the Company on the basis of the actual production of such defectives and cuttings as categorised by the Board. The higher retention prices recommended by the Board for 1951-52 to 1953-54 on the average worked out to about Rs. 35 per ton more than the then existing retention prices.

The Government of India in the Ministry of Commerce and Industry by their Resolution No. SC(A)-2(68)/51 dated 22nd June, 1951, accepted these recommendations of the Board except that they found it difficult to agree at that stage to the Board's recommendation regarding the additional profit-sharing bonus allowed to the Company. The overall increase in retention prices, after making this and certain other adjustments, worked out to Rs. 33 per ton and the prices came into force from 1st July, 1951 for a period of three years.

(b) In their letter No. G/335 dated 7th March, 1952, addressed to the Government of India in the Ministry of Commerce and Industry, the Company represented that their works cost of saleable steel had increased since the last Tariff Board inquiry on account of various factors including increase in siding charges, increase in freight rates, contribution to be made by the Company under the State Insurance Act, increase in the contributions to be made by the Company to the Employees' Provident Fund under the

Employees' Provident Fund Act and the administration charges to be paid by the Company under the Employees' Provident Fund Act and that an increase in their retention prices was, therefore, necessary. After examining this representation the Government of India in the Ministry of Commerce and Industry by their letter No.SC(A)-2(85)/52 dated 22nd May, 1952, requested the Commission to examine the claims made by the Company and to recommend the quantum of increase, if any, that might be granted to them. The Commission after necessary examination recommended that the fair retention prices of steel produced by the Company should be increased for the period from 1st April, 1952 to 30th June, 1954. Since, in the meantime, Government had requested the Commission to inquire into the retention prices of steel payable to the Company for this period, the Commission pointed out that the increase recommended by it in the retention prices for the Company should hold good till it was revised as a result of the fresh inquiry to be made later.

(c) In their letter No.SC(A)-2(89)/52 dated 30th October, 1952, Government requested the Commission to inquire into the retention prices of steel payable to the Company for the year 1953 and for the period January - June, 1954 and make recommendations. In November, 1952, the Company requested Government to make an urgent reference to the Commission for undertaking an inquiry into their claim for revision of their retention prices and submitted a memorandum to Government claiming increase in retention prices for July, 1951 to March, 1952 and April, 1952 to March, 1953. Copies of the memorandum were also furnished by the Company to the Commission on 26th November, 1952. In their letter No.SC(A)-2(94)/52 dated 29th November, 1952, Government requested the Commission to examine and state whether any revision was necessary in the retention prices of steel payable to the Company for the year 1951-52 on account of increases in overhead charges and for the period April - December, 1952 on account of increase in works cost and overheads and also to inquire into the retention prices payable

to the Company for the year 1953 and for the period January-June, 1954. Subsequently in their letter No. SC (A) -2(89)/52 dated 16th April, 1953, Government pointed out that the intention underlying their letter of 30th October, 1952, was not to preclude the Tariff Commission from making recommendations for a longer period if the Commission considered that to be more rational and if it could reasonably estimate the quantum of production during such period. Government also stated that they would appreciate if the Commission would cover as long a period as possible and formulate its recommendations for a period upto the date on which a major change in production was likely to take place.

2. (a) Shri N. Krishnan, the Cost Accounts Officer attached to the Commission, visited Calcutta on 13th February, 1953 and after a preliminary discussion with the Method of Inquiry. Iron & Steel Controller left for Tatanagar on 14th February, 1953. He stayed at Jamshedpur from 16th to 27th February, 1953 for completing his examination of the Company's costs.

(b) Shri M.D. Bhat, Chairman of the Commission and Shri B.N. Adarkar and Shri B.N. Das Gupta, Members, visited the works of the Tata Iron & Steel Co. Ltd., at Jamshedpur from 2nd to 4th April, 1953.

(c) Discussions were held with the representatives of the Company on 17th and 18th April, 1953. The Iron & Steel Controller, Government of India, was present at the discussions. A list of the representatives of the Company and Government who attended the discussions is given in the Appendix.

3. The accounts of the Tata Iron and Steel Company are maintained by financial year, April-March. The retention prices payable to the Company on the recommendation of the Tariff Board were brought into force from 1st July, 1951. The Company have claimed revision of the retention price payable to them for the period July,

Period for revision
or fixation of re-
tention prices.

1951 - March, 1952 and for the year April, 1952 - March, 1953. We had also to consider what would be a suitable period for which the retention prices of steel produced by the Company should be fixed for the future. Government in their letter dated 16th April, 1953, have suggested that the period of price fixation might extend to a date on which a major change in production was likely to take place. We have obtained from the Company information about their modernisation and expansion programme under which additions and alterations to the plant are contemplated to provide facilities for increasing the production of saleable steel to 930,000 tons by the year 1958-59. It was not possible for the Company to give precise data for completion of the various additions and alterations to the plant as these would depend on delivery of equipment, import conditions, etc. From such information as has been furnished to us it is, however, clear that the effects of modernisation and expansion on the volume of production of steel will not be felt until 1954-55 and no major change in production is, therefore, likely until the end of that year. We, therefore, propose to divide our examination of the whole question of revision or fixation of retention prices into three periods, viz., (i) July, 1951 - March, 1952, (ii) April, 1952 - March, 1953, and (iii) April, 1953 - March, 1955.

4. The Tariff Board (1951) had estimated the average works cost of the Company at Rs. 178.79 per ton. In their memorandum dated 25th November, 1952, the Retention prices for July, 1951 - March, 1952. Company have pointed out that after making adjustments for the change in 'product mix' between July, 1951 and March, 1952 and the provision for contingencies and the extra for coal stowing cess provided under overheads, the average cost of all saleable steel would be Rs. 190.12 per ton. The production of the Company during July, 1951 to March, 1952 was 603,985 tons and their average works cost was Rs. 198.17 per ton showing an increase of Rs. 8.05 per ton over the cost

adopted by the Board as adjusted. Since, however, the realizations of the Company were also higher than those estimated by the Tariff Board on account of increase in overheads and profit due to higher production and change in 'product mix' as well as the extra amount granted by Government by way of uniform retention prices and extra profit on surplus pig iron over the estimates, the Company did not ask for any adjustment under the works cost for the period July, 1951 - March, 1952. They, however, claimed adjustment under certain items of overheads such as profit-sharing bonus, interest on working capital, depreciation and return on the colliery block, etc., for this period.

After discussion with the Commission, the representatives of the Company agreed to withdraw their claim in respect of overheads also. No revision of the existing retention prices for this period, viz., July, 1951 - March, 1952 is, therefore, necessary.

5. We have examined the principal items of works costs for 1952-53 in paragraph 6 below. We would like to make particular reference here to the labour costs of the Company in 1952-53 which form a large proportion - nearly 45 per cent. - of the total cost of producing steel. Labour costs in April - December, 1952 were higher by Rs. 67.44 lakhs as compared with the corresponding period of 1951. The reasons for the increase are (i) grade increments since the last Tariff Board inquiry, (ii) increase in performance bonus and extension of the incentive scheme to some more departments, (iii) introduction of service bonus from June, 1951, (iv) enhanced food rebate to employees drawing salaries up to Rs. 250 per month from June, 1951, (v) provision for retiring gratuity on accrual basis instead of an actual payment basis and (vi) additional provision for increase in the Company's contribution to provident fund. In calculating the works cost for April-December, 1952, we have not allowed retiring gratuity in respect of persons drawing above Rs. 500 per month, as they are already receiving various bonuses and provident fund at

8 1/3 per cent. per annum of the total basic pay. The Tariff Board in 1951 had expected that the incentive bonus scheme of the Company would result in some improvement in labour efficiency and a consequent reduction in the number of workers. It had, therefore, assumed that the expected reduction in costs on account of economy in labour would be more or less counterbalanced by the increase in expenditure due to annual grade increments, etc., and did not provide for much increased expenditure in its estimates for 1952-53 and 1953-54. We have been informed by the Company that owing to the strong resistance of labour to retrenchment of surplus workers and even to keeping vacancies unfilled, it has not been possible to effect the expected reduction in the number of workers. We have allowed the increase in expenditure in 1952-53 on account of grade increments. We, however, consider that this matter deserves careful attention of the Company. We think that in a well-organized industry the entire wage structure and the system of incentives should be such that the labour cost per unit of output does not, under normal conditions, go up appreciably year by year.

6. (a) At the time when our Cost Accounts Officer started cost investigation of the Company for 1952-53, the accounts were available only up to December, 1952 and, therefore, costs were worked out on the basis of 9 months' working i.e., April-December, 1952. As the output during this period was at an annual rate of 789,679 tons as against 780,000 tons estimated by the Tariff Board in 1951, we have taken the works cost for the 9 months, April-December, 1952, as representative of the whole of the financial year 1952-53. The management of the Company agreed to this. In working out the cost we have made no major departure from the method followed in the previous inquiries by the Tariff Board, the only exception being coal which we examine below. We are forwarding the cost report of our Cost Accounts Officer as a confidential enclosure to this Report.

(b) The Tariff Board, at both the previous inquiries in 1949 and 1951, adopted the cost of the Company's own coal at the control rate instead of at the cost of coal. cost of raising which was higher. The Board did not consider that there was any justification for allowing a rate higher than the control rate. At the 1949 inquiry, the Board allowed Rs. 10 lakhs for the extra cost of the Company's own coal but no such provision was made in 1951. The Company have now represented to us that since their collieries form an integral part of the steel works and provide an assured and regular supply of coal in requisite quantity and of consistent quality, their actual cost of raising coal should be allowed. They have pointed out that the required quantities of coal could not be supplied by market collieries. The Company are at present raising nearly 60 per cent. of their actual requirements and get only about 40 per cent. from outside sources. An attempt to obtain their entire requirements from the market collieries would be beset with numerous difficulties and would affect adversely production of steel. We have examined the contention of the Company and are generally in agreement with it. The price of coal adopted by the Tariff Board in 1951 was Rs. 20.172 per ton. This did not include bonus and penalty payments on coal purchased from outside, coal crushing charges and increase in coal stowing cess of Re. 0-3-0 per ton which were all allowed in overheads. In arriving at the price of coal for April-December, 1952, we have taken the raising cost of the Company's own coal inclusive of washing charges but exclusive of depreciation and return on block as well as the control price of the purchased coal together with bonus and penalty payments on coal purchased from outside, crushing charges and stowing cess on the entire coal, and worked out the weighted average rate which comes to Rs. 21.978 per ton. As compared with the adjusted price of coal adopted in 1951 the increase in the rate of coal is only Rs. 0.398 per ton and this has affected the cost of coke by Rs. 0.61 per ton.

(c) The cost of coke during April-December, 1952, was Rs. 31.73 per ton as against Rs. 28.43 per ton estimated by the Tariff Board in 1951. The increase of cost of coke. Rs. 3.30 per ton was due partly to increase in the price of coal. The other two factors accounting for the increase in coke cost were (i) increased rate of consumption of coal and (ii) increased operating cost. The consumption of coal per ton of coke increased by 7 lbs. over the Tariff Board's estimate in 1951. The fall in the yield of coke was due to the fact that volatiles were higher, although, owing to the washing of coal, the ash content was lower. The operating cost of coke per ton increased by Rs. 0.42 per ton, mainly due to the increase in wages and salaries, stores, provision for retiring gratuity, etc.

(d) The cost of production of pig iron during April-December, 1952 worked out to Rs. 60.57 per ton as compared with Rs. 48.57 per ton estimated by the Tariff Board in 1951. The overall increase of Rs. 12 per ton was mainly due to (a) increase in railway freight on iron ore, manganese ore and limestone with effect from 1st April, 1952, (b) increased cost of coke, (c) increase in the cost of iron ore as a result of increased mining and loading rates of contracts, enhancement of food rebate and introduction of service bonus at the mines, and (d) increased consumption of iron ore, coke, limestone, etc. The increase in railway freight on raw materials alone worked out to Rs. 7.5 per ton. The increased consumption of iron ore, limestone, etc., was due to deterioration in their quality and the higher consumption of coke was also due to the same factor.

(e) The overall cost of mild steel ingots produced in the three steel melting shops No. 1, 2 and 3 worked out to Rs. 121.40 per ton during April-December, 1952 as against Rs. 101.40 estimated by the Board in 1951. The increase in cost of cost of Rs. 20 per ton of ingots was attributable to ingots. the following factors: (i) increase in the cost of hot metal to which reference has been made in sub-paragraph

(d) above, to the extent of Rs. 12 per ton, (ii) increase in the cost of refractories mostly due to increase in their prices, (iii) increase in wages and salaries due to grade increments, introduction of service bonus, enhancement of food rebate allowed to employees and extension of incentive bonus to various service departments and (iv) increase in consumption of stores required to keep the plant in normal working condition. The overall cost of acid steel ingots worked out to Rs. 221.85 per ton as against Rs. 187.39 per ton estimated by the Board in 1951.

(f) The yield of some of the products showed an improvement during the period April-December, 1952 but that of others recorded a slight fall as compared with the yields in the period April-September, 1950.

Rolling Mills
cost.

There was, however, a general increase in the operating cost mainly due to the increase in wages and salaries in the production departments, cost of grade increments, enhanced food rebate allowed, increase in general works expenses and stores, and higher provision for rolls due to increase in prices. The increase in general works expenses was due to increase in wages and stores as well as other expenses of which the town deficit was the most important. The town deficit has increased from Rs. 44.112 lakhs in 1951-52 to Rs. 59.940 lakhs in 1952-53, that is, by nearly Rs. 16 lakhs. The propriety of including this growing expenditure in the works cost may be questioned. The population of Jamshedpur according to the census of 1951 is 218,162. Although the employees of the Company and their relations and dependants probably form a majority of the population, there are numerous persons who are not in the employ of the Company and who yet enjoy the amenities provided by it. Apart from the financial burden which the Company have to bear on account of the various amenities provided by them such as roads, lighting, water supply, hospitals, etc., it seems anomalous that for a town with such a large and growing population there should be a Notified Area Committee with very limited powers and not a full-fledged Municipality.

(g) The weighted average rate of spelter during April-December, 1952 worked out to Rs. 3218.98 per ton as against Spelter rate. Rs. 3500 per ton adopted by the Tariff Board in 1951. The actual rate was adopted for working out the cost for April-December, 1952.

(h) The works costs per ton of different categories of saleable steel for April-December, 1952 as determined by us are given below. The representatives of the Works Costs of saleable steel. Company have agreed to the works costs as worked out by us.

Statement showing the production and works costs per ton of saleable steel for April-December, 1952

Particulars		Total production	Works cost per ton
		Tons	Rs.
1.	(a) Blooms	2,040	139.81
	(b) Slabs	930	158.19
2.	Billets	78,111	154.51
3.	Tin Bars	65,299	150.47
4.	Hoe Bars	2,816	152.82
5.	Sleeper Bars	885	154.80
6.	Heavy Rails (Tested) ..	41,294	182.00
7.	Light Rails	2,792	245.70
8.	Structurals	91,405	195.35
9.	Heavy Bars	5,374	196.08
10.	Light Bars	99,904	183.86
11.	Fish Plates for Light Rails ..	976	306.10
12.	Fish Plates for Heavy Rails ..	749	270.90
13.	Plates ordinary	52,202	208.04
14.	Plates - Acid	323	461.34
15.	Black Sheets 10-14 Gauge ..	58,098	208.76
16.	Black Corrugated Sheets - 24 G ..	10	253.10
17.	Galvanized Plain Sheets (soft) 24 G	12,233	524.38

Statement (contd.)			Tons	Rs.
18.	Galvanized Corrugated Hard (Tested or Untested) - 24 G		42,037	510.57
19.	Galvanized Corrugated Soft (Tested or Untested) - 24 G		3,913	536.75
20.	Sleeper Pressed* ..	..	13,631	216.42
21.	Acid Wheels & Tyres ..	..	10,969	483.46
22.	Basic Wheels & Tyres..	..	2,264	375.36
23.	Acid Axles ..	..	3,340	597.98
24.	Basic Axles ..	..	664	504.20
TOTAL			592,259	225.37

	Rs
* B.G. (90 lbs.)	193.10
B.G. (75 lbs.)	196.13
M.G. (50 and 60 lbs.)	239.35

The overall increase in works costs during April-December, 1952 as compared with the Board's estimates in 1951 adjusted for spelter price and 'product mix' was Rs. 29.67 per ton. Of this increase, Rs. 12.12 per ton was due to higher siding charges, increase in freight rates which came into force from 1st April, 1952, employers' special contribution under the State Insurance Act which came into force in February, 1952, and the increase in the Company's provision under the Employees' Provident Fund Act from 1st November, 1952. This part of the increase has already been covered in our Report submitted to Government on 8th December, 1952. The balance of the increase, viz., Rs. 17.55 per ton was mostly due to the increase in wages, bonuses, increase in food rebate, retiring gratuity, etc., which taken together accounted for an increase of Rs. 11.39 per ton. An increase of Rs. 1.5 per ton was explained by a lower credit for scrap in April-December, 1952 due to the lower percentage of sheet mill scrap that could be sold. The balance of the increase of Rs. 4.56 per ton was due to the increased cost of coal, increase in the prices of refractories and stores and their consumption.

7. (a) The Tariff Board in its Report (1951) on the retention prices of steel allowed a gross amount of Rs. 377 lakhs as depreciation which would leave a net amount of Rs. 300 lakhs, after paying a sum of Rs. 77 lakhs by way of income-tax on the amount of depreciation allowed in excess of the normal amount. The Company have represented that as their block had increased to Rs. 38.88 crores on 31st March, 1952, they may be allowed depreciation at the average rate of $6\frac{1}{2}$ per cent on the difference between their block on 31st March, 1952 and the block taken by the Tariff Board in 1951. The gross block of the Company pertaining to steel i.e., excluding the colliery block, had increased by Rs. 1.48 crores due to replacement and rehabilitation of the plant. The Company have also claimed that in fixing the retention prices of their steel, depreciation and return on colliery block should also be allowed. The colliery block as on 31st March, 1952 was Rs. 3.85 crores. In working out the works cost for 1952-53 we have allowed the actual cost of raising coal. On the same basis we have decided to treat the colliery block of the Company as a part of the block for steel making and have provided depreciation on both addition to the block and the colliery block, i.e., on Rs. 5.33 crores at the rate of $6\frac{1}{2}$ per cent. The provision comes to Rs. 33.31 lakhs.

(b) During the 1951 inquiry the Board had allowed Rs.32 lakhs on account of interest at 4 per cent on an estimated working capital of Rs. 8 crores. The Company have claimed that their works cost had gone up considerably since then and the working capital required by them had also correspondingly increased. We recognise that due to the rise in the prices of materials, refractories and the increase in freight rates, etc., a larger amount of working capital would be required for 1952-53 than was estimated in 1951 by the Board. We have, therefore, allowed interest at $4\frac{1}{2}$ per cent per annum on a working capital of Rs. 9.25 crores. The provision amounts to Rs. 41.63 lakhs.

(c) The Tariff Board in 1951 had taken the block of the Company at Rs. 38.4 crores after deducting the blocks of Agrico, miscellaneous properties, controlled stockyards and the collieries. After taking the colliery block of the Company as a part of their total block and after deducting capital expenditure incurred on incomplete units, we have taken the block at Rs. 43.73 crores and allowed a return at 8 per cent. The amount of return works out to Rs. 349.84 lakhs.

(d) The amount of Rs. 19 lakhs allowed by the Board in the 1951 inquiry for head office expenses has been maintained. Selling expenses have also been provided at the rate of Rs. 2 per ton of steel as at the time of the last inquiry.

(e) The Company have represented to us that the provision for gratuity made in the past on the basis of the actual payments from year to year was far below the accrued liability in a year. The estimated accrued liability upto 31st March, 1952 was stated to be Rs. 250 lakhs. The Company have asked for a provision of Rs. 50 lakhs per year to be made for the next five years from 1952-53 onwards; for otherwise they stated that the future profits of the Company would be burdened with this liability of the past and the net return on block would be lower than at present. We have carefully examined this matter. As the provision for retiring gratuity for the period April-December, 1952 and the future years is made by the Company on an accrual basis and as heavy retirements are not likely within the next five years, we consider that a provision of Rs. 5 lakhs over and above the annual provision would meet the situation.

(f) The amount of overheads as provided under the various items discussed above comes to Rs. 841.57 lakhs.

Credits for profits
on sale of surplus
pig iron, ferro-
manganese etc.

From this amount, we have deducted profits amounting to Rs. 33 lakhs made by the Company on the sale of surplus pig iron and ferro-manganese and realisation on supplies of water and electricity.

The net amount of overheads, therefore, works out to Rs. 808.57 lakhs for the whole year and to Rs. 606.43 lakhs on a proportionate basis for 9 months as follows:-

	<i>Lakhs of rupees</i>	
1. Depreciation:		
(a) Normal (as per 1951 Tariff Board Report)	200.00	
Add on additions including collieries	33.31	233.31
(b) Special provision for depreciation including taxation on the amount in excess of the normal allowance (as per last Report)		177.00
Gross ..	Rs. 177 lakhs	
Tax ..	Rs. 77 "	
	Rs. 100 lakhs	
2. Interest on working capital		41.63
3. Return on block (including additions and collieries)		349.84
4. Head office expenses		19.00
5. Selling expenses		15.79
6. Provisions for gratuity for the past years		5.00
	Total	841.57
7. Deduct for profits on surplus pig iron, etc.		33.00
		808.57
	For 9 months	606.43

8. We have allocated the total overhead charges as determined above for 9 months over the net quantity of saleable steel produced during the period April-December, 1952, i.e., the quantity for saleable steel minus the quantity for maintenance purposes, which is taken at 581,759 tons. As at the previous inquiries, we have allocated Rs. 10 more in overheads per ton for standard products than for the non-standard products and defectives. The production of non-standard products, defectives and cuttings is taken at 18,880 tons for 9 months ending December, 1952. We have allocated overheads to individual items, approximately in the same proportions as were indicated in the schedule of retention prices recommended by the Board in 1951.

9. The following statement gives the works costs, overheads and fair ex-works retention prices of the various products manufactured by the Company for April-December, 1952. These retention prices should apply for the year 1952-53.

Sl. No.	Name of the product (Untested quality)	Works costs per ton	Over-heads per ton	Ex-works fair retention price per ton
1	2	3	4	5
		Rs.	Rs.	Rs.
1.	(a) Blooms	140	62	202
	(b) Slabs	158	62	220
2.	Billets	155	73	228
3.	Tin bars	150	73	223
4.	Hoe bars	153	73	226
5.	Sleeper bars	155	86	241
6.	Structurals, bearing plates and crossing sleeper bars	195	103	298
*7.	Rails (heavy) 50/100 lbs	182	103	285

(1)	(2)	(3)	(4)	(5)
		Rs.	Rs.	Rs.
8.	Bars and rods (round and squares below 3" and flats upto and including 5" wide)	184	103	287
9.	Bars and rods (rounds and squares 3" and above and flats over 5" wide)	196	103	299
10.	Rails (light) 30 lbs. and below	245	103	348
11.	Fish plates for light rails	306	115	421
*12.	Fish plates for heavy rails - Class "A"	271	115	338
13.	Blacksheets (10 - 14 gauge)	209	141	350
14.	Galvanized corrugated sheets (Hard Iron) G/24 (6' x 10')	511	143	654
15.	Plates (3/8" and up)	209	103	312
*16.	Plates acid steel (3/8" and up)	401	103	504
*17.	Pressed sleepers	216	103	319
*18.	Acid wheels and tyres	483	154	637
*19.	Basic wheels and tyres	375	154	529
*20.	Acid axles	598	154	752
*21.	Basic axles	504	154	658
22.	Black corrugated sheets (Hard Iron) G/24	253	143	396

* Tested quality नमूने के तहत

The overall increase in the revised ex-works retention prices for 1952-53 as compared with those fixed by Government Resolution of 22nd June, 1951 after adjustment of the actual cost of spelter and 'product mix' works out to Rs. 32.31 per ton of saleable steel.

10. (a) In their memorandum dated 10th March, 1953, the Company have stated that they do not expect to achieve an annual output of more than 750,000 tons of saleable steel during 1953-55. They pointed out that in the course of implementation of their modernisation programme, their normal operations would be interfered with to some extent, as new tracks would have to be

laid down; parts of the old plant would have to be dismantled and replacements installed. Because of these interruptions to production, the Company have placed their estimate of production for 1953-54 at a figure lower than that adopted by the Tariff Board in 1951, viz., 780,000 tons and the average actual yearly production of 794,500 tons during the last two years. Regarding 1954-55 also the Company have expressed their difficulty in estimating production but suggested that the same figure as proposed by them for 1953-54 might be adopted provisionally. We discussed this matter with the representatives of the Company and after taking all factors into consideration have decided to take the production of saleable steel at 760,000 tons per annum for the period 1953-55. The Company have agreed to this estimate.

(b) We have already referred in paragraph 5 above to the labour costs of the Company. For the period 1953-55 we have made provision on account of the net increase in wages and salaries as a result of grade increments, performance and other bonuses as well as for reduction in performance bonus, etc., due to the lower output assumed by us. We discussed the question of labour costs with the representatives of the Company. They emphasized that economy in labour costs could be achieved by retrenching surplus workers and keeping vacancies arising out of resignation, retirement or death unfilled but it was not possible to effect it under the existing conditions. They also expressed the view that production had gone up since 1947-49 only because of the introduction of the new wage structure and bonus systems. They further stated that taking into account the increase in the cost of living and the level of wages in other industries they had not been too liberal in the matter of expenditure on labour. While we recognise that a contented labour force is essential for maintaining and increasing production we would like to stress that the working of various incentives should normally be reflected in higher output leading to various economies, thereby stabilising the cost per unit of output.

(c) We have taken the production of coke and hot metal (iron) at 900,000 tons and 1,077,170 tons, respectively and have estimated the surplus pig iron at 50,000 tons. We have computed the cost of materials on the basis of the latest available data and have taken the price of spelter at Rs. 1,700 per ton, as compared with Rs. 3,218.98 per ton adopted by us for April-December, 1952 and Rs. 3,500 per ton adopted by the Board in 1951.

(d) We have taken credit for an estimated production of sulphate of ammonia of 13,661 tons at the reduced price of Rs. 270 per ton f.o.r. Calcutta, giving a net realisation of Rs. 228.80 per ton. The Company have represented to us that owing to the serious drop in orders for sulphate of ammonia they may not be able to realise from sales the full amount for which credit has been taken. In recent months the demand for sulphate of ammonia is stated to have gone down considerably. In view of the increasing stocks with the producers as well as the availability of sulphate of ammonia from the Sindri Fertiliser factory, the Company expressed fears that the amount realized from their sales may fall substantially. We, therefore, suggest that any loss sustained by the Company (or gain made by it) on account of lower (or higher) receipts as compared to the amounts for which credit has been taken by us should be adjusted with the Equalisation Fund.

(e) On the above basis we have estimated the cost of hot metal at Rs. 62.31 per ton and the weighted average works cost of basic steel ingots (including electric steel ingots) at Rs. 125.17 per ton and that of acid ingots at Rs. 229.17 per ton. Our estimates of total production and works costs of different categories of saleable steel are given in the statement below. The representatives of the Company have agreed to these estimates.

Statement showing the estimated production, and works cost of billets and other categories of steel for the period 1953-55

Particulars			Total production	Works cost per ton.
			Tons	Rs.
1.	(a) Blooms	....	3,400	144.69
	(b) Slabs	....	1,600	164.72
2.	Billets	....	97,000	159.07
3.	Tin bars	....	88,000	155.94
4.	Heavy rails - tested	...	51,700	190.97
5.	Light rails	....	3,580	259.19
6.	Structurals	....	120,410	203.54
7.	Heavy bars	....	9,910	210.38
8.	Light bars	....	122,920	192.13
9.	Fish plates for light rails	...	1,130	336.62
10.	Fish plates for heavy rails	...	950	286.62
11.	Plates - ordinary	...	64,620	222.62
12.	Plates - acid	....	380	486.14
13.	Black sheets 10-14 G	...	81,000	219.74
14.	Galvanised plain sheets (soft) 24 G	...	10,000	424.06
15.	Galvanised corrugated sheets (hard - tested or untested) 24 G	}	52,126	418.40
16.	Galvanised corrugated sheets (soft- tested or untested) 24 G		7,874	436.79
17.	Sleeper pressed *	...	20,000	221.88
18.	Acid wheels and tyres	...	14,910	503.57
19.	Basic wheels and tyres	...	3,000	394.07
20.	Acid axles	....	4,740	621.87
21.	Basic axles	....	750	528.47
Total			760,000	223.55

Rs.

*B.G. (90 lbs.) 198.68

B.G. (75 ") 201.66

M.G. (50 & 60
lbs.) 244.70

The weighted average works cost of saleable steel for 1953-55 comes to Rs. 223.55 per ton. Our corresponding figure for the period April-December, 1952, given in paragraph 6(h) above after adjustment for spelter price at the rate of Rs. 1,700 per ton and 'product mix' is Rs. 213.68 per ton. The increase in works cost is explained by (i) increase in wages, salaries, etc., (ii) increase in employers' special contribution to Employees Provident Fund, the full effect of which was not reflected during the period, April-December, 1952, and (iii) increase in the rates of raw materials as a result of adopting the actual cost of raising instead of the weighted average rates during April-December, 1952.

11. The steel block and colliery block have increased by Rs. 77 lakhs and 20 lakhs, respectively since March, 1952.

We have allowed depreciation at 6½ per cent on Overheads for 1953-55. the above block in addition to the amount of depreciation already allowed for 1952-53. We have taken the amount of working capital at the same figure as for 1952-53. As regards the rates of return on block, Company represented to us that 8 per cent return on gross block was not adequate to attract fresh investment for the industry or to build up sufficient reserves for the purpose of modernisation and expansion. We have carefully considered this matter. Having regard to the basic character of the steel industry and the importance of maintaining a rate of expansion in it, the large capital expenditure which the Company have undertaken and the resources at present available to them for the purpose, and also taking into account the present conditions in the capital market, we think that the Company should be enabled to allocate a somewhat larger amount to their reserves than they are doing at present for financing their programme of modernisation and expansion. We have, therefore, allowed a return of 10 per cent on the total gross block at Rs. 44.70 crores (as on 31st December, 1952) subject to the condition, to which the representatives of the Company have agreed, that the

Company shall set aside the amount of extra return of 2 per cent (minus taxation) for the specific purpose of modernisation and expansion in addition to the usual allocation to reserve and that no part of it shall be utilised in or towards the payment of managing agency commission or dividends or profit-sharing bonus or for distribution of profits in any other way. We have provided head office expenses, selling expenses and gratuity on the same basis as for 1952-53. We have taken credit for estimated profits to be made by the Company on the sale of surplus pig iron and the realisations on supply of water and electricity. No credit has been taken for ferro-manganese as the Company have suspended production. We have provided an amount of Rs. 40 lakhs as margin for contingencies. The net yearly amount of overhead charges works out to Rs. 957.21 lakhs as given below:-

Lakhs of Rupees

1. Depreciation:

(a) Normal (as per 1951 Tariff Board Report)	200.00	
Add on additions including collieries	<u>39.38</u>	239.38
(b) Special provision for depreciation including taxation on the amount in excess of the normal allowance (as per 1951 Report)		177.00

Gross Rs. 177 lakhs

Tax Rs. 77 "

Net Rs. 100 lakhs

2. Interest on working capital	...	41.63
3. Return on black (including additions and collieries)	...	447.00
4. Head Office expenses	...	19.00
5. Selling expenses	...	15.20
6. Provision for gratuity for the past years	...	5.00

Lakhs of Rupees.

7. Margin for contingencies	...	<u>40.00</u>
Total		984.21
8. Deduct for profits on surplus pig iron etc.	...	<u>27.00</u>
Net		<u>957.21</u>

The allocation of overheads for the different categories of steel for 1953-55 has been made on the same basis as that adopted for April-December, 1952. The quantity of steel consumed in the works for maintenance purposes has been taken at 14,000 tons and the production on non-standards, defectives and cuttings at 22,636 tons.

12. The estimated works costs, overheads and fair ex-works retention prices of the various products manufactured by the Tata Iron & Steel Co. Ltd., for the period 1953-55 are given below:-

Sl. No.	Name of product (Untested quality)	Estimate of works costs per ton	Overheads per ton	Estimated ex-works fair retention prices per ton
1	2	3	4	5
		Rs.	Rs.	Rs.
1.	(a) Blooms ..	145	76	221
	(b) Slabs ..	165	76	241
2.	Billets ..	159	89	248
3.	Tin bars ..	156	89	245
4.	Structurals, bearing plates and crossing sleeper bars ..	204	127	331
*5.	Rails (Heavy) 50/100 lbs ..	191	127	318
6.	Bars and rods (rounds and squares below 3" and flats upto and including 5" wide) ..	192	127	319

1	2	3	4	5
		Rs.	Rs.	Rs.
7.	Bars and rods (rounds and squares 3" and above and flats over 5" wide) ..	210	127	337
8.	Rails (Light) 30 lbs. and below	259	127	386
9.	Fishplates for light rails..	337	141	478
*10.	Fishplates for heavy rails- Class 'A' ..	287	141	428
11.	Blacksheets (10-14 gauge) ..	220	172	392
12.	Galvanized corrugated sheets (Hard iron) G/24 (6' x 10')	418	175	593
13.	Plates (3/8" and up) ..	222	127	349
*14.	Plates acid steel (3/8" and up)	486	127	613
*15.	Pressed sleepers ..	222	127	349
*16.	Acid wheels and tyres ..	504	188	692
*17.	Basic wheels and tyres ..	394	188	582
*18.	Acid axles ..	621	188	809
*19.	Basic axles ..	528	188	716

* Tested quality

The overall increase in the fair ex-works retention price for 1953-55 as compared with the prices for 1952-53 (adjusted for the price of spelter and 'product mix' adopted by us) works out to Rs. 34.39 per ton of saleable steel. As compared with the fair ex-works retention price determined by the Board in 1951, the over-all increase (adjusted for price of spelter and 'product mix') works out to Rs. 66.98 per ton of saleable steel.

13. Our conclusions and recommendations are summarised

Summary of conclusions as follows:-
and recommendations.

(1) No revision of the existing retention prices for the period July, 1951 - March, 1952 is necessary. [Paragraph 4]

(ii) The fair retention prices of steel produced by the Tata Iron & Steel Co. Ltd. for (a) April, 1952 - March, 1953 and (b) April, 1953 - March, 1955 should be revised as indicated in the statements in paragraphs 9 and 12.

(iii) The price of spelter has been taken at Rs. 3,218.98 per ton in calculating the works cost for April - December, 1952 and at Rs. 1,700 per ton for the period 1953-55. The payments made to the Company should continue to be subject to adjustments for the actual cost of spelter as at present. [Paragraphs 6 (g) and 10 (c)]

(iv) The retention prices for defectives, cuttings and non-standard products should be Rs. 10 less than those for standard products. [Paragraphs 8 and 11]

(v) Any loss sustained by the Company (or gain made by it) on account of lower (or higher) receipts obtained by them from sales of sulphate of ammonia as compared to the amount for which credit has been taken in working out the works cost for 1953-55 should be adjusted with the Equalisation Fund. [Paragraph 10(d)]

(vi) A return of 10 per cent on the total gross block at Rs. 44.70 crores has been allowed for 1953-55 subject to the condition, to which the representatives of the Company have agreed, that the Company shall set aside the amount of extra return of 2 per cent (minus taxation) allowed to them for the specific purpose of modernisation and expansion in addition to the usual allocation to reserve and no part of it shall be utilised in or towards the payment of managing agency commission or dividends or profit-sharing bonus or for distribution of profits in any other way. [Paragraph 11]

14. We desire to acknowledge the willing and cordial co-operation we have received from the Tata Iron & Steel Co.

Acknowledgements. Ltd., who furnished valuable memoranda to us and gave oral evidence. We also wish

to express our thanks to Shri C.R. Natesan, Iron & Steel Controller, Government of India, for the assistance given by him during the course of the inquiry.



M.D. Bhat,

Chairman

B.N. Adarkar,

Member

B.N. Das Gupta,

Member

D.K. Malhotra,
Secretary

Bombay. Dated 29th May, 1953.

APPENDIX

[Vide paragraph 2(c)]

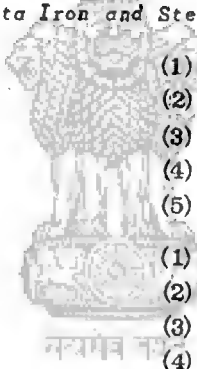
List of Representatives who attended the discussions

DATE

NAMES OF THE REPRESENTATIVES

(a) *The Tata Iron and Steel Co. Ltd.*

17th April, 1953.

- 
- (1) Mr. J.R.D. Tata.
 - (2) Sir Jehangir Ghandy.
 - (3) Mr. M.K. Powvala.
 - (4) Mr. K.M. Madan.
 - (5) Mr. A. Rajagopalan.

18th April, 1953.

- (1) Mr. J.D. Choksi.
- (2) Sir Jehangir Ghandy.
- (3) Mr. M.K. Powvala.
- (4) Mr. K.M. Madan.
- (5) Mr. A. Rajagopalan.

(b) *Government Representative*17th April, 1953
and

18th April, 1953.

Shri C.R. Natesan,
Iron & Steel Controller,
Government of India,
Calcutta.



सत्यमेव जयते